

BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against:

MICHAEL ANDREW HARRISON
27302 Trigo Circle
Mission Viejo, CA 92691

Certified Public Accountant
Certificate No. 19299

Respondent.

Case No. AC-2013-3

DECISION AND ORDER

The attached Stipulated Settlement and Disciplinary Order is hereby adopted by the California Board of Accountancy, Department of Consumer Affairs, as its Decision in this matter.

This Decision shall become effective on December 24, 2012.

It is so ORDERED November 24, 2012



FOR THE CALIFORNIA BOARD OF
ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS

1 KAMALA D. HARRIS
Attorney General of California
2 JAMES M. LEDAKIS
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9 **BEFORE THE**
CALIFORNIA BOARD OF ACCOUNTANCY
10 **DEPARTMENT OF CONSUMER AFFAIRS**
STATE OF CALIFORNIA

11 In the Matter of the Accusation Against:

Case No. AC-2013-3

12 **MICHAEL ANDREW HARRISON**
13 **27302 Trigo Circle**
14 **Mission Viejo, CA 92691**

**STIPULATED SETTLEMENT AND
DISCIPLINARY ORDER**

15 **Certified Public Accountant**
Certificate No. 19299

16 Respondent.

17
18 IT IS HEREBY STIPULATED AND AGREED by and between the parties to the above-
19 entitled proceedings that the following matters are true:

20 **PARTIES**

21 1. Patti Bowers (Complainant) is the Executive Officer of the California Board of
22 Accountancy. She brought this action solely in her official capacity and is represented in this
23 matter by Kamala D. Harris, Attorney General of the State of California, by Carl W. Sonne,
24 Deputy Attorney General.

25 2. Respondent Michael Andrew Harrison (Respondent) is represented in this proceeding
26 by attorney Stephen J. Tully, whose address is: 4165 E. Thousand Oaks Blvd., Ste. 201
27 Westlake Village, CA 91362-3839.
28

1 3. On or about September 28, 1973, the California Board of Accountancy issued
2 Certified Public Accountant Certificate No. 19299 to Michael Andrew Harrison (Respondent).
3 The Certified Public Accountant Certificate was in full force and effect at all times relevant to the
4 charges brought in Accusation No. AC-2013-3 and will expire on June 30, 2014, unless renewed.

5 JURISDICTION

6 4. Accusation No. AC-2013-3 was filed before the California Board of Accountancy
7 (CBA), Department of Consumer Affairs, and is currently pending against Respondent. The
8 Accusation and all other statutorily required documents were properly served on Respondent on
9 October 22, 2012. Respondent timely filed his Notice of Defense contesting the Accusation.

10 5. A copy of Accusation No. AC-2013-3 is attached as Exhibit A and incorporated
11 herein by reference.

12 ADVISEMENT AND WAIVERS

13 6. Respondent has carefully read, fully discussed with counsel, and understands the
14 charges and allegations in Accusation No. AC-2013-3. Respondent has also carefully read, fully
15 discussed with counsel, and understands the effects of this Stipulated Settlement and Disciplinary
16 Order.

17 7. Respondent is fully aware of his legal rights in this matter, including the right to a
18 hearing on the charges and allegations in the Accusation; the right to be represented by counsel at
19 his own expense; the right to confront and cross-examine the witnesses against him; the right to
20 present evidence and to testify on his own behalf; the right to the issuance of subpoenas to compel
21 the attendance of witnesses and the production of documents; the right to reconsideration and
22 court review of an adverse decision; and all other rights accorded by the California
23 Administrative Procedure Act and other applicable laws.

24 8. Respondent voluntarily, knowingly, and intelligently waives and gives up each and
25 every right set forth above.

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1 CULPABILITY

2 9. Respondent admits the truth of each and every charge and allegation in Accusation
3 No. AC-2013-3.

4 10. Respondent agrees that his Certified Public Accountant Certificate is subject to
5 discipline and he agrees to be bound by the CBA's probationary terms as set forth in the
6 Disciplinary Order below.

7 RESERVATION

8 11. The admissions made by Respondent herein are only for the purposes of this
9 proceeding, or any other proceedings in which the California Board of Accountancy or other
10 professional licensing agency is involved, and shall not be admissible in any other criminal or
11 civil proceeding.

12 CONTINGENCY

13 12. This stipulation shall be subject to approval by the California Board of Accountancy.
14 Respondent understands and agrees that counsel for Complainant and the staff of the California
15 Board of Accountancy may communicate directly with the CBA regarding this stipulation and
16 settlement, without notice to or participation by Respondent or his counsel. By signing the
17 stipulation, Respondent understands and agrees that he may not withdraw his agreement or seek
18 to rescind the stipulation prior to the time the CBA considers and acts upon it. If the CBA fails to
19 adopt this stipulation as its Decision and Order, the Stipulated Settlement and Disciplinary Order
20 shall be of no force or effect, except for this paragraph, it shall be inadmissible in any legal action
21 between the parties, and the CBA shall not be disqualified from further action by having
22 considered this matter.

23 13. The parties understand and agree that facsimile copies of this Stipulated Settlement
24 and Disciplinary Order, including facsimile signatures thereto, shall have the same force and
25 effect as the originals.

26 14. This Stipulated Settlement and Disciplinary Order is intended by the parties to be an
27 integrated writing representing the complete, final, and exclusive embodiment of their agreement.
28 It supersedes any and all prior or contemporaneous agreements, understandings, discussions,

1 negotiations, and commitments (written or oral). This Stipulated Settlement and Disciplinary
2 Order may not be altered, amended, modified, supplemented, or otherwise changed except by a
3 writing executed by an authorized representative of each of the parties.

4 15. In consideration of the foregoing admissions and stipulations, the parties agree that
5 the CBA may, without further notice or formal proceeding, issue and enter the following
6 Disciplinary Order:

7 **DISCIPLINARY ORDER**

8 IT IS HEREBY ORDERED that Certified Public Accountant Certificate No. 19299 issued
9 to Respondent Michael Andrew Harrison (Respondent) is revoked. However, the revocation is
10 stayed and Respondent is placed on probation for three (3) years on the following terms and
11 conditions.

12 **1. Obey All Laws**

13 Respondent shall obey all federal, California, other states' and local laws, including those
14 rules relating to the practice of public accountancy in California.

15 **2. Cost Reimbursement**

16 Respondent shall reimburse the CBA \$4,997 for its investigation and prosecution costs. The
17 payment shall be made within 90 days of the date the CBA's decision is final.

18 **3. Submit Written Reports**

19 Respondent shall submit, within 10 days of completion of the quarter, written reports to the
20 CBA on a form obtained from the CBA. The respondent shall submit, under penalty of perjury,
21 such other written reports, declarations, and verification of actions as are required. These
22 declarations shall contain statements relative to respondent's compliance with all the terms and
23 conditions of probation. Respondent shall immediately execute all release of information forms
24 as may be required by the CBA or its representatives.

25 **4. Personal Appearances**

26 Respondent shall, during the period of probation, appear in person at interviews/meetings as
27 directed by the CBA or its designated representatives, provided such notification is accomplished
28 in a timely manner.

1 **5. Comply With Probation**

2 Respondent shall fully comply with the terms and conditions of the probation imposed by
3 the CBA and shall cooperate fully with representatives of the California Board of Accountancy in
4 its monitoring and investigation of the respondent's compliance with probation terms and
5 conditions.

6 **6. Practice Investigation**

7 Respondent shall be subject to, and shall permit, a practice investigation of the respondent's
8 professional practice. Such a practice investigation shall be conducted by representatives of the
9 CBA, provided notification of such review is accomplished in a timely manner.

10 **7. Comply With Citations**

11 Respondent shall comply with all final orders resulting from citations issued by the
12 California Board of Accountancy.

13 **8. Tolling of Probation for Out-of-State Residence/Practice**

14 In the event respondent should leave California to reside or practice outside this state,
15 respondent must notify the CBA in writing of the dates of departure and return. Periods of non-
16 California residency or practice outside the state shall not apply to reduction of the probationary
17 period, or of any suspension. No obligation imposed herein, including requirements to file
18 written reports, reimburse the CBA costs, and make restitution to consumers, shall be suspended
19 or otherwise affected by such periods of out-of-state residency or practice except at the written
20 direction of the CBA.

21 **9. Violation of Probation**

22 If respondent violates probation in any respect, the CBA, after giving respondent notice and
23 an opportunity to be heard, may revoke probation and carry out the disciplinary order that was
24 stayed. If an accusation or a petition to revoke probation is filed against respondent during
25 probation, the CBA shall have continuing jurisdiction until the matter is final, and the period of
26 probation shall be extended until the matter is final.

27 The CBA's Executive Officer may issue a citation under California Code of Regulations,
28 Section 95, to a licensee for a violation of a term or condition contained in a decision placing that

licensee on probation.

10. Completion of Probation

Upon successful completion of probation, respondent's license will be fully restored.

ACCEPTANCE

I have carefully read the above Stipulated Settlement and Disciplinary Order and have fully discussed it with my attorney, Stephen J. Tully. I understand the stipulation and the effect it will have on my Certified Public Accountant Certificate. I enter into this Stipulated Settlement and Disciplinary Order voluntarily, knowingly, and intelligently, and agree to be bound by the Decision and Order of the California Board of Accountancy.

DATED:

11/1/2012

Michael A. Harrison

MICHAEL ANDREW HARRISON
Respondent

I have read and fully discussed with Respondent Michael Andrew Harrison the terms and conditions and other matters contained in the above Stipulated Settlement and Disciplinary Order. I approve its form and content.

DATED:

11-1-2012

Stephen J. Tully
Attorney for Respondent

Exhibit A

Accusation No. AC-2013-3

1 KAMALA D. HARRIS
Attorney General of California
2 JAMES M. LEDAKIS
Supervising Deputy Attorney General
3 CARL W. SONNE
Deputy Attorney General
4 State Bar No. 116253
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12 **MICHAEL ANDREW HARRISON**
13 **27302 Trigo Circle**
14 **Mission Viejo, CA 92691**

A C C U S A T I O N

15 **Certified Public Accountant**
16 **Certificate No. 19299**

Respondent.

17
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19 Complainant alleges:

20 **PARTIES**

21 1. Patti Bowers (Complainant) brings this Accusation solely in her official capacity as
22 the Executive Officer of the California Board of Accountancy, Department of Consumer Affairs.

23 2. On or about September 28, 1973, the California Board of Accountancy issued
24 Certified Public Accountant Certificate Number 19299 to Michael Andrew Harrison
25 (Respondent). The Certified Public Accountant Certificate was in full force and effect at all times
26 relevant to the charges brought herein and will expire on June 30, 2014, unless renewed.

27 / / /

28 / / /

1 3. This Accusation is brought before the California Board of Accountancy (CBA),
2 Department of Consumer Affairs, under the authority of the following laws. All section
3 references are to the Business and Professions Code unless otherwise indicated.

4 4. Section 5097 states in pertinent part:

5 (a) Audit documentation shall be a licensee's records of the procedures applied, the
6 tests performed, the information obtained, and the pertinent conclusions reached in
7 an audit engagement. Audit documentation shall include, but is not limited to,
8 programs, analyses, memoranda, letters of confirmation and representation, copies
9 or abstracts of company documents, and schedules or commentaries prepared or
10 obtained by the licensee.

11 (b) Audit documentation shall contain sufficient documentation to enable a
12 reviewer with relevant knowledge and experience, having no previous connection
13 with the audit engagement, to understand the nature, timing, extent, and results of
14 the auditing or other procedures performed, evidence obtained, and conclusions
15 reached, and to determine the identity of the persons who performed and reviewed
16 the work.

17 (c) Failure of the audit documentation to document the procedures applied, tests
18 performed, evidence obtained, and relevant conclusions reached in an engagement
19 shall raise a presumption that the procedures were not applied, tests were not
20 performed, information was not obtained, and relevant conclusions were not
21 reached. This presumption shall be a rebuttable presumption affecting the burden
22 of proof relative to those portions of the audit that are not documented as required
23 in subdivision (b). The burden may be met by a preponderance of the evidence.

24 5. Section 5100 states:

25 After notice and hearing the board may revoke, suspend, or refuse to renew
26 any permit or certificate granted under Article 4 (commencing with Section 5070)
27 and Article 5 (commencing with Section 5080), or may censure the holder of that
28 permit or certificate for unprofessional conduct that includes, but is not limited to,
one or any combination of the following causes:

.....

29 (c) Dishonesty, fraud, gross negligence, or repeated negligent acts
30 committed in the same or different engagements, for the same or different clients,
31 or any combination of engagements or clients, each resulting in a violation of
32 applicable professional standards that indicate a lack of competency in the practice
33 of public accountancy or in the performance of the bookkeeping operations
34 described in Section 5052.

.....

35 (e) Violation of Section 5097.

.....

1 6. Section 5107(a) of the Code states:

2 The executive officer of the board may request the administrative law
3 judge, as part of the proposed decision in a disciplinary proceeding, to direct any
4 holder of a permit or certificate found to have committed a violation or violations
5 of this chapter to pay to the board all reasonable costs of investigation and
6 prosecution of the case, including, but not limited to, attorneys' fees. The board
7 shall not recover costs incurred at the administrative hearing.

8 7. Section 5109 of the Code states:

9 The expiration, cancellation, forfeiture, or suspension of a license, practice
10 privilege, or other authority to practice public accountancy by operation of law or
11 by order or decision of the board or a court of law, the placement of a license on a
12 retired status, or the voluntary surrender of a license by a licensee shall not deprive
13 the board of jurisdiction to commence or proceed with any investigation of or
14 action or disciplinary proceeding against the licensee, or to render a decision
15 suspending or revoking the license.

16 8. Section 5116 of the Code provides that the CBA, after appropriate notice and an
17 opportunity for hearing, may order any licensee or applicant for licensure or examination to pay
18 an administrative penalty as part of any disciplinary proceeding.

19 9. Section 5116.2 of the Code states:

20 In accordance with Section 5116 and applicable regulations any licensee who
21 violates subdivision (a), (c), (i), (j) or (k) of Section 5100 may be assessed an
22 administrative penalty of not more than one million dollars (\$1,000,000) for the
23 first violation and not more than five million dollars (\$5,000,000) for any
24 subsequent violation, except that a licensee who is a natural person may be
25 assessed an administrative penalty of not more than fifty thousand dollars
26 (\$50,000) for the first violation and not more than one hundred thousand dollars
27 (\$100,000) for any subsequent violation.

28 **PROFESSIONAL STANDARDS, REQUIREMENTS AND GUIDELINES**

1 10. Professional standards¹, requirements and other guidelines of practice pertinent to
2 this Accusation for audits of local governmental units, include, without limitation, the standards
3 and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General
4 of the United States, often referred to as generally accepted government auditing standards
5 (GAGAS) or Yellow Book; U.S. generally accepted auditing standards (GAAS)²; Office of

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¹ All references herein to standards and other authoritative literature are to the versions in effect at the time the audit was performed.

(continued...)

1 Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-*
2 *Profit Organizations*. These include the following specific standards referenced in this
3 Accusation:

4 (a) **AU 150.02 (GAAS)** states with respect to *Standards of Field Work*:

- 5 1. The auditor must adequately plan the work and must properly
6 supervise any assistants.
- 7 2. The auditor must obtain a sufficient understanding of the
8 entity and its environment, including its internal control, to assess
9 the risk of material misstatement of the financial statements
10 whether due to error or fraud, and to design the nature, timing,
11 and extent of further audit procedures.
- 12 3. The auditor must obtain sufficient appropriate audit evidence
13 by performing audit procedures to afford a reasonable basis for an
14 opinion regarding the financial statements under audit.

15 (b) **AU 326.28 (GAAS)** states, in part:

16 Some documents represent direct audit evidence of the existence of
17 an asset, for example a document constituting a financial instrument
18 such as a stock or bond. Inspection of such documents may not
19 necessarily provide audit evidence about ownership or value. In
20 addition, inspecting an executed contract may provide audit
21 evidence relevant to the entity's application of accounting
22 principles, such as revenue recognition.

23 (c) **AU 330.34 and 330.35 (GAAS)** establish guidelines for the confirmation
24 process in audits performed in accordance with generally accepted auditing
25 standards. There is a presumption that confirmation requests for accounts
26 receivable will be made in a GAAS audit unless one of the following conditions is
27 true:

- 28 • Accounts receivable are immaterial to the financial statements.
- The use of confirmations would be ineffective.

² Standards applicable to the performance of an audit required by Generally Accepted Auditing Standards (GAAS) are discussed in the Statements on Auditing Standards (SAS) and are codified by the AICPA. The statements are codified by the "AU" number.

1 • The auditor's combined assessed level of inherent and control risk
2 is low, and the assessed level, in conjunction with the evidence
3 expected to be provided by analytical procedures or other
4 substantive tests of details, is sufficient to reduce audit risk to an
5 acceptably low level for the applicable financial statement
6 assertions. In many situations, both confirmation of accounts
7 receivable and other substantive tests of details are necessary to
8 reduce audit risk to an acceptably low level for the applicable
9 financial statement assertions.

10
11 An auditor who has not requested confirmation in the examination
12 of accounts receivable should document how he or she overcame
13 the presumption.

14 (d) **AU 337.08 (GAAS)** provides that a letter of audit inquiry to legal counsel
15 is the primary means of corroborating information furnished by management
16 concerning litigation, claims, and assessments. The letter is sent to inside counsel
17 or outside lawyers who have the primary responsibility for, and knowledge of,
18 particular litigation, claims, or assessments.

19 (e) **AU 337.10 (GAAS)** provides, in part, that the auditor should appropriately
20 document conclusions reached concerning the need for or disclosure of litigation,
21 claims, and assessments.

22 (e) **AU 339.10 (GAAS)** provides that the auditor should prepare audit
23 documentation that enables an experienced auditor, having no previous connection
24 to the audit, to understand:

- 25 a. The nature, timing, and extent of auditing procedures performed
26 to comply with SASs and applicable legal and regulatory
27 requirements;
- 28 b. The results of the audit procedures performed and the audit
evidence obtained;
- c. The conclusions reached on significant matters; and
- d. That the accounting records agree or reconcile with the audited
financial statements or other audited information.

(f) **Section 1.22 (Yellow Book)** states, omitting any footnotes, that:

1 Financial audits provide an independent assessment of and
2 reasonable assurance about whether an entity's reported financial
3 condition, results, and use of resources are presented fairly in
4 accordance with recognized criteria. Reporting on financial audits
5 performed in accordance with GAGAS also includes
6 reports on internal control, compliance with laws and regulations,
7 and provisions of contracts and grant agreements as they relate to
8 financial transactions, systems, and processes. Financial audits
9 performed under GAGAS include financial statement audits and
10 other related financial audits:

11 a. Financial statement audits: The primary purpose of a
12 financial statement audit is to provide reasonable assurance through
13 an opinion (or disclaim an opinion) about whether an entity's
14 financial statements are presented fairly in all material respects in
15 conformity with generally accepted accounting principles (GAAP),
16 or with a comprehensive basis of accounting other than GAAP.

17 b. Other types of financial audits: Other types of financial
18 audits under GAGAS provide for different levels of assurance and
19 entail various scopes of work, including: (1) providing special
20 reports, such as for specified elements, accounts, or items of a
21 financial statement; (2) reviewing interim financial information; (3)
22 issuing letters for underwriters and certain other requesting parties;
23 (4) reporting on the controls over processing of transactions by
24 service organizations; and (5) auditing compliance with regulations
25 relating to federal award expenditures and other governmental
26 financial assistance in conjunction with or as a byproduct of a
27 financial statement audit.

28 (g) **Section 1.31 (Yellow Book)** states, omitting any footnotes, that:

Compliance audit objectives relate to compliance criteria
established by laws, regulations, contract provisions, grant
agreements, and other requirements that could affect the
acquisition, protection, use, and disposition of the entity's resources
and the quantity, quality, timeliness, and cost of services the entity
produces and delivers. Compliance objectives include determining
whether

a. the purpose of the program, the manner in which it is to be
conducted, the services delivered, the outcomes, or the population it
serves is in compliance with laws, regulations, contract provisions,
grant agreements, and other requirements;

b. government services and benefits are distributed or delivered to
citizens based on the individual's eligibility to obtain those services
and benefits;

c. incurred or proposed costs are in compliance with applicable
laws, regulations, and contracts or grant agreements; and

d. revenues received are in compliance with applicable laws,
regulations, and contract or grant agreements.

1 (h) **Section 4.01 (Yellow Book)** states, omitting any footnotes, that:

2 This chapter establishes field work standards and provides guidance
3 for financial audits conducted in accordance with generally
4 accepted government auditing standards (GAGAS). This chapter
5 identifies the American Institute of Certified Public Accountants
(AICPA) field work standards and prescribes additional standards
6 for financial audits performed in accordance with GAGAS.

7 a. For financial audits, GAGAS incorporate the AICPA field work
8 and reporting standards and the related statements on auditing
9 standards (SAS) unless specifically excluded or modified by
10 GAGAS.

11 (i) **Section 4.03 (Yellow Book)** states, omitting any footnotes, that:

12 The three AICPA generally accepted standards of field work are as
13 follows:

14 ...

15 b. The auditor must obtain a sufficient understanding of the entity
16 and its environment, including its internal control, to assess the risk
17 of material misstatement of the financial statements whether due to
18 error or fraud, and to design the nature, timing, and extent of further
19 audit procedures.

20 c. The auditor must obtain sufficient appropriate audit evidence by
21 performing audit procedures to afford a reasonable basis for an
22 opinion regarding the financial statements under audit.

23 (j) **Section 4.04 (Yellow Book)** states, omitting any footnotes, that:

24 GAGAS establish field work standards for financial audits in
25 addition to the requirements contained in the AICPA standards.
26 Auditors should comply with these additional standards when citing
27 GAGAS in their audit reports. The additional government auditing
28 standards relate to:

...

e. audit documentation (see paragraphs 4.19 through 4.24).

(k) **Section 4.19 (Yellow Book)** states, omitting any footnotes, that:

Under AICPA standards and GAGAS, auditors must prepare audit
documentation in connection with each audit in sufficient detail to
provide a clear understanding of the work performed (including the
nature, timing, extent, and results of audit procedures performed),
the audit evidence obtained and its source, and the conclusions
reached. Under AICPA standards and GAGAS, auditors should
prepare audit documentation that enables an experienced auditor,
having no previous connection to the audit, to understand [:]

a. the nature, timing, and extent of auditing procedures performed
to comply with GAGAS and other applicable standards and
requirements;

- b. the results of the audit procedures performed and the audit evidence obtained;
- c. the conclusions reached on significant matters; and
- d. that the accounting records agree or reconcile with the audited financial statements or other audited information.

(l) **OMB Circular A-133** describes a four-step process to determine major programs. Under Step 1, programs are classified as either Type A or Type B. Step 2 requires the auditor to identify Type A programs that are low-risk. Step 3 requires auditors to use professional judgment and the federal program risk criteria to identify high-risk Type B programs. If the auditor elects Option 1 as described in Step 4, all Type B programs exceeding the threshold described in the Circular must be assessed. However, if the auditor selects Option 2 under Step 4, the auditor may limit the identification of high-risk Type B programs to the number of low-risk Type A programs.

(m) **OMB Circular A-133 Compliance Supplement** (June 2009), Department of Housing and Urban Development (CFDA 14.218) Community Development Block Grants/Entitlement Grants, contains the following audit procedures:

Suggested Audit Procedures

- a. Verify that the grantee has a citizen participation plan.
- b. Review the plan to verify that it provides for public hearings, publication, public comment, access to records, and consideration of comments.
- c. Examine the grantee's records for evidence that the elements of the citizen's participation plan were followed as the grantee certified.

In addition, The Los Angeles County Citizen Participation Plan states:

Each participating city gives its constituency the opportunity to provide citizen input on housing and community development needs at a community meeting or public hearing by:

- Holding one or more community meetings or conducting one public hearing with a minimum of 14 calendar day notification period.
- Soliciting citizen participation through an advertisement published in local newspaper whose primary circulation is within the city.

- Soliciting citizen participation through notices posed in public buildings within the city at least 14 calendar days before the meeting date.

The Compliance Supplement requires the firm to determine whether the grantee:

- Is obligating and expending program funds only after HUD's approval of the request for release of funds (RROF).
- Determined whether environmental reviews are being conducted, when required.

(n) **The Davis-Bacon Act**, 41 U.S.C. § 3141, requires that "all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL..."

(o) **OMB Circular A-87**, states, in part:

Support for salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. [...]

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation ...

Suggested Audit Procedures – Compliance

1. Select a sample of construction contracts and subcontracts greater than \$2,000 that are covered by the Davis-Bacon Act and perform the following procedures:

a. Verify that the required prevailing wage rate clauses were included.

b. Verify the contractor or subcontractor submitted weekly required certified payrolls.

FACTS

11. Respondent was at all relevant times a shareholder with the firm of Mayer Hoffman McCann P.C. (MHM), which was the independent auditor for the City of Bell (Bell), a

1 municipality located in Southern California, and the Bell Community Redevelopment Agency
2 (Bell CRA), from 2006 to 2010. Respondent was MHM's Engagement Shareholder with respect
3 to the independent audit work performed by MHM for Bell and Bell CRA at all relevant times.

4 12. The California State Controllers Office (SCO) is charged with the duty to review
5 the audit reports for California local governments in accordance with, *inter alia*, the Federal
6 Single Audit Act of 1984 as amended by the Single Audit Act Amendment of 1996 and
7 amendments in conjunction with the OMB Circular A-133. The California State Administrative
8 Manual, section 20070, section 2, subparagraph f, states:

9 The SCO will review and monitor the audit reports issued by external independent
10 auditors. The SCO will determine whether or not the audit reports conform to
11 *Governmental Auditing Standards*.

12 13. In December, 2010, the SCO issued its "MAYER HOFFMAN MCCANN. P.C.
13 (IRVINE OFFICE) Review Report QUALITY CONTROL REVIEW For the Firm's Audits of
14 City of Bell and Bell Community Redevelopment Agency *for the Fiscal Year Ended June 30,*
15 *2009*" (SCO Quality Review Report). Thereafter, the CBA initiated an investigation of
16 Respondent's audit of Bell and Bell CRA.

17 **FIRST CAUSE FOR DISCIPLINE**

18 **(Repeated Acts of Negligence)**

19 14. Respondent is subject to disciplinary action under Code section 5100(c) in that
20 Respondent committed repeated acts of negligence in the 2009 audit for Bell and the Bell CRA
21 that departed from professional standards. The circumstances are as follows:

- 22 a. Respondent failed to properly perform risk assessments. The City had two Type
23 B programs that required risk assessments. Respondent assessed one program as
24 low-risk despite factors that indicated that the program was high-risk.
25 Respondent failed to assess the second program as either low-risk or high-risk.
26 The second program had not been audited in the prior two years, which criteria
27 indicated that the second program was also a high-risk program. Therefore,
28

1 Respondent failed to properly assess the Type B programs. (Yellow Book,
2 Circular A-133.)

3 b. Respondent failed to obtain sufficient competent evidence:

4 i. The City's financial statements included a \$300,000 loan receivable that was
5 outstanding at least one year. Based on its due date, the \$300,000 loan
6 receivable was in default as of June 30, 2009. There was no audit
7 documentation that Respondent confirmed the receivable, performed
8 alternative procedures, or showed the receivable offset in deferred revenue.
9 (AU § 150.02, AU 326.28 and AU § 330.34.)

10 ii. The City paid total fees in a material amount to one law firm. There was no
11 evidence that Respondent obtained an attorney's representation letter from the
12 law firm or performed inquiry procedures related to litigation, claims and
13 assessments related to services provided by this law firm. (AU § 150.02, AU
14 337.08 and AU § 337.10.)

15 iii. Respondent failed to document performance of certain minimum procedures to
16 comply with compliance testing requirements:

17 a. Auditors perform compliance testing using the OMB Circular A-133
18 Compliance Supplement. Respondent's audit documentation reflected the
19 Respondent's use of the March 2008 Compliance Supplement rather than the
20 March 2009 Compliance Supplement. There was no documentation that
21 Respondent reviewed the Compliance Supplement to determine the effect of
22 any changes on Respondent's audit. (Yellow Book and Circular A-133.)

23 b. Circular A-133 compliance testing required additional compliance testing
24 under OMB Circular A-87. Such compliance testing required that salaries and
25 wages for the City's employees that worked solely on a single Federal award
26 or cost objective were supported by periodic certifications that the employees
27 worked solely on that program for the period covered by the certification.
28 Respondent failed to document in its testing of payroll data references to or

1 conclusions regarding the payroll certifications. (Yellow Book, Circular A-133
2 and Circular A-87.)

- 3 c. Respondent's documentation did not reflect the performance of minimum
4 procedures with regard to the City's compliance with all provisions of the
5 Citizen Participation Plan as required by the March 2009 Compliance
6 Supplement. (Yellow Book and Circular A-133.)
- 7 d. Respondent's audit documentation reflected that Respondent performed
8 analysis and tests of controls for the interim period July 1, 2008 through March
9 23, 2009. Respondent did not adequately document the effect of the amounts,
10 accounts, transactions, and balances from the period March 24, 2009 through
11 June 30, 2009, on the City's compliance with the Davis Bacon Act,
12 expenditure testing, and other compliance testing as noted above. (Yellow
13 Book.)
- 14 e. Compliance testing required that Respondent determine whether Bell and the
15 Bell CRA complied with current applicable laws and regulations that could
16 have a material effect on Bell or Bell CRA's operations. Respondent's
17 audit documentation does not reflect that Respondent reviewed all applicable
18 laws and regulations that affected Bell and the Bell CRA's operations or
19 inquired of Bell and the Bell CRA to determine whether they were in
20 compliance with all applicable laws and regulations, including California
21 Assembly Bill 1389 (Chapter 751, Statutes of 2008). Assembly Bill
22 1389 added Health & Safety Code section 33684, and required the SCO to
23 submit a report summarizing specified information reported by redevelopment
24 agencies regarding their tax increment payments to local taxing entities. The
25 SCO listed the Bell CRA in its "Report on Property Tax Pass-Through
26 Payments" as of July 7, 2009," prior to the issuance of Respondent's auditors'
27 report. (Yellow Book and Circular A-133.)
28

1 **SECOND CAUSE FOR DISCIPLINE**

2 **(Insufficient Audit Documentation)**

3 15. Respondent is subject to disciplinary action under Code section 5100(e) in that
4 Respondent insufficiently documented MHM's audit for Bell and the Bell CRA for the year
5 ending June 30, 2009 for each of the reasons set forth in paragraph 14, above, which is a violation
6 of Code section 5097.

7 **PRAYER**

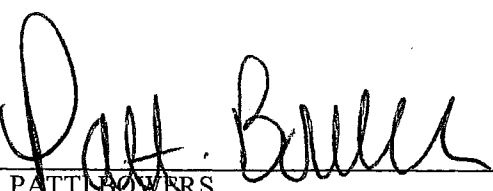
8 WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged,
9 and that following the hearing, the California Board of Accountancy issue a decision:

10 1. Revoking or suspending or otherwise imposing discipline upon Certified Public
11 Accountant Certificate Number 19299, issued to Michael Andrew Harrison

12 2. Ordering Michael Andrew Harrison to pay the California Board of Accountancy the
13 reasonable costs of the investigation and enforcement of this case, pursuant to Business and
14 Professions Code section 5107;

15 3. Taking such other and further action as deemed necessary and proper.

16
17
18 DATED: 10/20/2012


19 PATTI BOWERS
20 Executive Officer
21 California Board of Accountancy
22 Department of Consumer Affairs
23 State of California
24 Complainant

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